

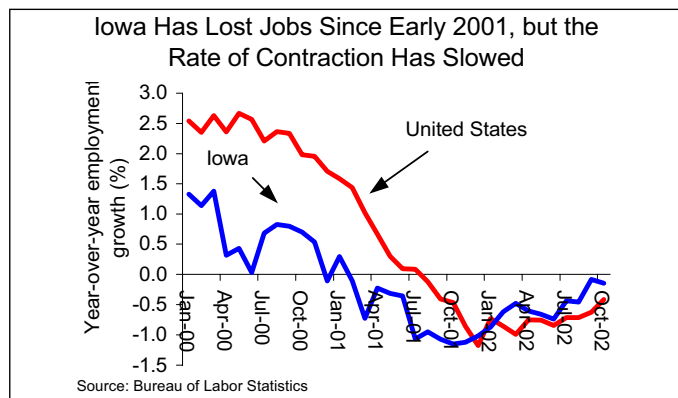
# FDIC State Profile

WINTER 2002

## Iowa

**The Iowa economy has lost jobs since early 2001, but the rate of contraction has slowed.**

- Employment began to slow in third quarter 2000 and began to contract in November 2000, well in advance of the national employment decline. Employment growth has been negative during the past two years.
- Employment weakness was centered in durable goods manufacturing, particularly in Iowa's industrial machinery industry.
- Unemployment in Iowa peaked at 4.4 percent in January 2002, the highest level since February 1997. However, October 2002 data indicated signs of recovery, with unemployment at 3.3 percent and total employment declining only slightly.



**Performance of the agricultural sector was positive during 2002, and commodity prices are expected to increase in 2003.**

- Iowa escaped drought conditions that prevailed in other states during 2002; corn and soybean harvests were large.
- Iowa growers also benefited from higher corn and soybean prices because of production shortfalls in regions affected by the drought. As shown in the **chart**, prices are expected to improve even more in 2003.
- Results for livestock producers were less favorable, as depressed prices in the hog sector led more small producers to leave the industry during 2002. Hog prices are expected to increase to break-even levels by early 2003, as producers adjust breeding inventories.

### Iowa Crop Prices Have Improved Significantly

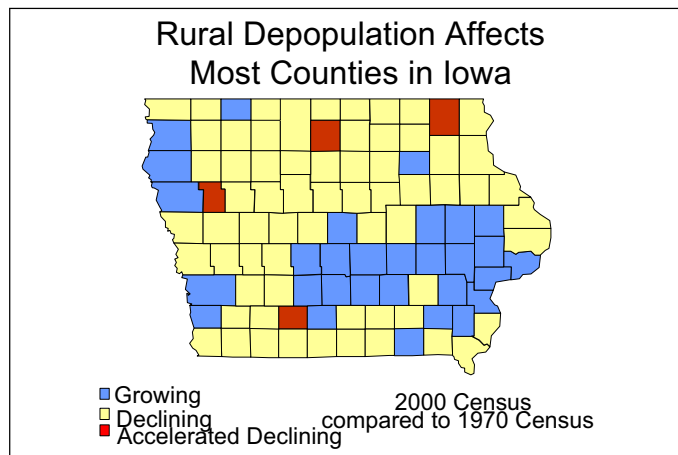
	2001	Est. 2002	Proj. 2003	Proportion of State's Ag Revenue
Corn	1.85	1.97	2.40	27%
Soybeans	4.54	4.25	5.40	19%
Wheat	2.62	2.78	3.80	0%
Cattle	72.71	67.50	74.00	16%
Hogs	45.81	33.50	36.50	27%
Milk	14.97	12.10	12.35	5%

Note: Grain prices are for marketing year of each crop.

Crop quantities are per bushel; livestock and milk are per hundredweight  
Source: USDA November 2002

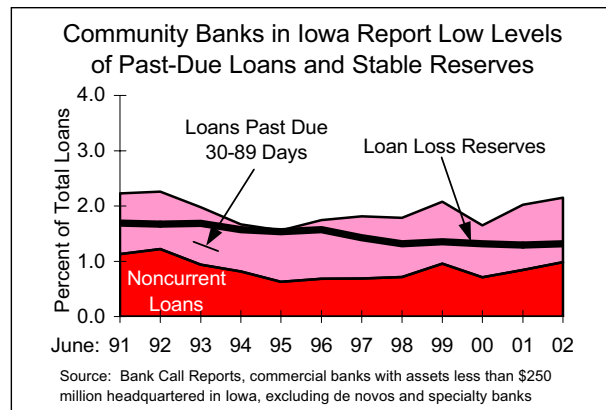
**Depopulation will continue to affect rural areas.**

- As shown in the **map**, 65 of Iowa's 99 counties have lost population since 1970, and four of those counties also lost population at an increasing rate in the 1990s.
- Technological changes and consolidation in the agricultural sector have reduced the demand for farm labor, and farmers have become less dependent on nearby small towns to purchase inputs and professional services.
- As a result, people have migrated from rural areas to metropolitan areas to seek better employment opportunities.
- Counties that are losing population at a faster rate may be in danger of losing their economic viability, as shrinking tax rolls may make essential infrastructure, such as utilities and school systems, difficult to maintain.



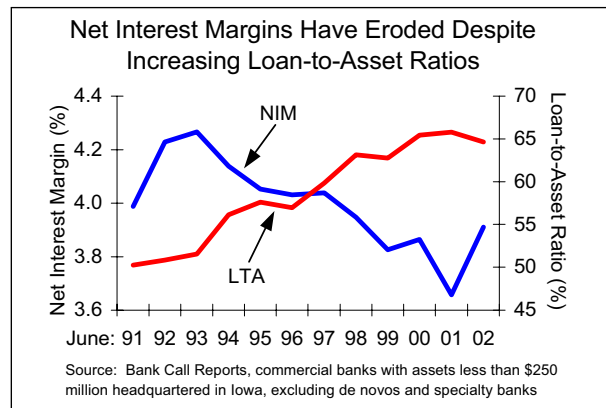
### Iowa's Community banks continue to report sound asset quality despite the economic slowdown.

- Despite the economic slowdown that affected the nation and Iowa in 2001, asset quality remains relatively strong among the state's community banks.
- Noncurrent and past-due loans remain moderate and well below levels reported by insured institutions headquartered in other Midwest states. Charge-off rates also remain low.
- Loan loss reserve levels have declined in proportion to total loans, but appear stable relative to the coverage of problem loans.



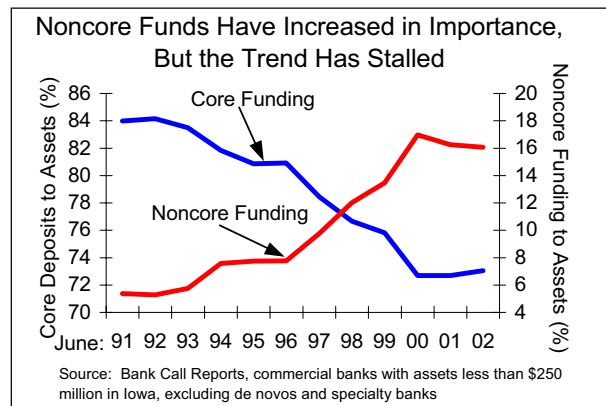
### Community banks continue to face challenges in maintaining net interest margins.

- Net interest margins (NIMs) declined steadily during the 1990s among community banks headquartered in Iowa because of strong and increasing loan and funding competition, as well as depopulation trends in rural areas.
- Recent NIM fluctuations, both positive and negative, are attributable to Federal Reserve interest rate actions, and do not signal an end to the longer-term trend of NIM erosion.
- Generally, banks that accept greater credit risk by making more loans are rewarded with higher NIMs. However, this did not hold true in the 1990s, as community bank NIMs declined despite dramatic increases in loan-to-asset (LTA) levels (see **chart**).
- Economic slowdowns typically result in declining LTA ratios, and community bank NIMs could be pressured downward should LTA levels revert to historically normal levels.



### Iowa's community banks continue to face funding challenges.

- Utilization of core funds to support assets declined steadily throughout the 1990s because of negative population trends, competitive forces from larger banks and nonbanks, and significant disintermediation of funds into the stock and bond markets.
- To counter declining deposits, community banks headquartered in Iowa increased reliance on noncore funds, such as large time deposits and borrowings.
- The use of borrowings, mostly Federal Home Loan Bank advances, increased dramatically in the 1990s. The proportion of banks with borrowings making up at least 10 percent of total funds increased from 6 percent in June 1997 to 31 percent in June 2002.
- The current economic slowdown and large stock market losses have temporarily halted the core funding erosion as investors moved funds back into banks



## Iowa at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Institutions (#)	436	450	467	465	468
Total Assets (in thousands)	51,447,081	49,977,728	47,148,260	47,000,509	48,209,958
New Institutions (# <3 years)	13	20	25	24	16
New Institutions (# <9 years)	40	42	42	33	24
<b>Capital</b>					
Tier 1 Leverage (median)	8.96	9.14	9.13	9.34	9.43
<b>Asset Quality</b>					
Past-Due and Nonaccrual (median %)	1.78%	1.66%	1.34%	1.57%	1.55%
Past-Due and Nonaccrual ≥ 5%	39	27	22	30	23
ALLL/Total Loans (median %)	1.24%	1.21%	1.22%	1.28%	1.24%
ALLL/Noncurrent Loans (median multiple)	1.64	1.97	2.51	2.02	2.21
Net Loan Losses/Loans (aggregate)	0.25%	0.24%	0.15%	0.13%	0.33%
<b>Earnings</b>					
Unprofitable Institutions (#)	19	14	20	27	18
Percent Unprofitable	4.36%	3.11%	4.28%	5.81%	3.85%
Return on Assets (median %)	1.21	1.05	1.13	1.10	1.20
25th Percentile	0.82	0.73	0.82	0.79	0.93
Net Interest Margin (median %)	3.94%	3.66%	3.85%	3.77%	3.95%
Yield on Earning Assets (median)	6.78%	7.84%	7.86%	7.54%	7.94%
Cost of Funding Earning Assets (median)	2.83%	4.17%	3.97%	3.75%	3.98%
Provisions to Avg. Assets (median)	0.09%	0.07%	0.07%	0.07%	0.04%
Noninterest Income to Avg. Assets (median)	0.52%	0.52%	0.49%	0.48%	0.49%
Overhead to Avg. Assets (median)	2.52%	2.53%	2.49%	2.47%	2.48%
<b>Liquidity/Sensitivity</b>					
Loans to Deposits (median %)	78.59%	80.80%	79.67%	74.67%	75.59%
Loans to Assets (median %)	64.67%	65.89%	65.62%	62.71%	63.57%
Brokered Deposits (# of Institutions)	64	52	54	56	61
Bro. Deps./Assets (median for above inst.)	2.23%	1.40%	1.19%	1.40%	1.68%
Noncore Funding to Assets (median)	14.95%	15.15%	15.27%	11.54%	10.55%
Core Funding to Assets (median)	73.75%	73.05%	73.40%	76.47%	77.44%
<b>Bank Class</b>					
State Nonmember	309	319	331	329	333
National	49	47	48	46	51
State Member	56	60	63	66	59
S&L	5	5	5	5	5
Savings Bank	17	19	20	19	20
Mutually Insured	0	0	0	0	0
<b>MSA Distribution</b>					
	# of Inst.	Assets	% Inst.	% Assets	
No MSA	346	28,457,794	79.36%	55.31%	
Des Moines IA	26	12,910,695	5.96%	25.10%	
Cedar Rapids IA	17	1,459,475	3.90%	2.84%	
Davenport-Moline-Rock Island IA-IL	11	2,266,180	2.52%	4.40%	
Sioux City IA-NE	8	1,560,460	1.83%	3.03%	
Iowa City IA	8	1,918,157	1.83%	3.73%	
Waterloo-Cedar Falls IA	7	875,610	1.61%	1.70%	
Dubuque IA	7	1,498,129	1.61%	2.91%	
Omaha NE-IA	6	500,581	1.38%	0.97%	

Source: Bank and Thrift Call Reports